联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO.,LTD.

INTERIM REPORT 2019

STOCK CODE：0980

Contents

Corporate Information

Directors

Executive Director

Mr. Xu Tao

Non-executive Directors

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying *(Vice Chairman)*
Mr. Xu Hong
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Wong Tak Hung

Independent Non-executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Chen Wei
Mr. Zhang Jun (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Zhang Jun (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng
Ms. Zheng Xiao-yun

Remuneration and Appraisal Committee

Mr. Xia Da-wei *(Chairman)*
Ms. Xu Zi-ying
Mr. Chen Wei
Mr. Zhang Jun (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng

Strategic Committee

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying
Mr. Xu Hong
Mr. Xu Tao
Mr. Qian Jian-qiang

Nomination Committee

Mr. Ye Yong-ming *(Chairman)*
Mr. Chen Wei
Mr. Xia Da-wei
Mr. Zhang Jun (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng

Supervisors

Mr. Yang A-guo *(Chairman)*
Ms. Tao Qing
Mr. Shi Hao-gang

Company Secretary

Ms. Hu Li-ping

Authorized Representatives

Mr. Xu Tao
Ms. Hu Li-ping

International Auditor

Deloitte Touche Tohmatsu

Legal Advisors to the Company

As to Hong Kong Laws

Baker & McKenzie

As to People's Republic of China ("PRC") Laws

Grandall Law Firm *(Shanghai)*

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

Registered and Business Offices

Registered Office in the PRC

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Place of Business in the PRC

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17th Floor, Hopewell Centre
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Wanchai
Hong Kong

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited
("Stock Exchange" or "SEHK")

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H Shares Issued

372,600,000 H shares

Financial Year-end Date

31 December

Management Discussion and Analysis

Operating Environment

In the first half of 2019, the situation at home and abroad was complicated and severe and the downward pressure on the Chinese economy increased, resulting in a slight decrease in economic growth rate. Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2019, China's gross domestic product (GDP) achieved a year-on-year growth of 6.3%, representing a decrease of 0.5 percentage point in growth rate compared with the same period of last year. The growth rate in the second quarter was 6.2%, representing a decrease of 0.2 percentage point compared with the first quarter. Overall, the main macroeconomic indicators were in a reasonable range and the economic structure continued to be adjusted and optimized.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2019, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 8.4%, representing a decrease of 1.0 percentage point compared to the same period of last year. In particular, by retail segments, the retail sales of supermarkets, department stores, specialty stores and boutiques in the retail units above a designated size had a year-on-year growth of 7.4%, 1.5%, 5.3% and 3.0% respectively in the first half of the year, representing a decrease in growth rate compared to the same period of last year.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2019, the national disposable income per capita had an actual growth of 6.5% compared to the same period of last year, representing a year-on-year decrease of 0.1 percentage point in growth rate. The national disposable income per capita for the first half of 2019 was 0.2 percentage point higher than the economic growth rate. The income growth was basically consistent with the economic growth. In particular, the disposable income per capita of rural residents grew faster than that of urban areas, and the urban-rural income gap was further narrowed. In the first half of 2019, the national consumption expenditure per capita had an actual increase of 5.2% compared to the same period of last year, representing a year-on-year decrease of 1.5 percentage points in growth rate. From the perspective of contribution rate, the contribution rate of consumption growth to economic growth in the first half of 2019 exceeded 60%, the consumption trend index was close to historical high, and the fundamental role of consumption in economic growth was further consolidated.

In the first half of 2019, with a high penetration rate of e-commerce development, the growth of traditional e-commerce slowed down. As continuously driven by the innovation and transformation of physical retail sector, the consumers' experience of increasing life quality through consumption has become a new momentum for business growth, and the scenario-based offline consumption experience was gradually favored by consumers. With the emergence of new consumption patterns, the new retail force that influences online shopping with offline behaviors also gradually expanded.

In the first half of 2019, in the transition era of nationwide consumption, rational consumption and product upgrading, Chinese retail enterprises including the Group strived to drive transformation and innovation with a focus on consumer experience, and reshape the traditional retail value chain to lead consumption upgrade.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB13,488 million, representing a year-on-year increase of approximately RMB409 million, or approximately 3.1%. This was mainly attributable to the Group's newly opened stores and the effects of reform and transformation of existing stores. Revenue generated from the Group's supermarket segment increased by approximately RMB388 million, or approximately 9.1%, compared to the same period of last year. Sales of the same store had a decrease of 0.4%.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB1,822 million, representing a year-on-year decrease of approximately RMB64 million, or approximately 3.4%. This was mainly due to the adjustments in product mixes of the Group's hypermarkets, optimization of hypermarkets' layout based on scenario, and a decrease in operational areas. In particular, the gross profit of the hypermarket segment decreased by approximately RMB83 million compared to the same period of last year. During the period under review, the Group strengthened the integration of online and offline business to increase sales by implementing various marketing activities. As a result, the gross profit margin was approximately 13.51%, representing a decrease of approximately 0.91 percentage point from approximately 14.42% for the corresponding period of last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB1,216 million, representing a year-on-year increase of approximately RMB98 million, or approximately 8.7%. This was mainly because the income from suppliers increased by approximately RMB73 million as compared with that of the corresponding period of last year.

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains amounted to approximately RMB415 million, representing a year-on-year increase of approximately RMB174 million, or approximately 72.2%, due to the effect of the gains amounting to approximately RMB135 million obtained from the disposal of private land and buildings by Hangzhou Lianhua Huashang Group Co., Ltd.（杭州聯華華商集團有限公司）, a subsidiary of the Group.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB2,588 million, representing a year-on-year decrease of approximately RMB16,009 thousand, or approximately 0.6%. The distribution and selling expenses accounted for approximately 19.19% of the revenue, representing a year-on-year decrease of approximately 0.72 percentage point.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB415 million, representing a year-on-year increase of approximately RMB24,925 thousand, or approximately 6.4%. The administrative expenses accounted for approximately 3.08% of the revenue, representing a year-on-year increase of approximately 0.10 percentage point. This was mainly due to a year-on-year increase of approximately RMB31 million in labour costs as a result of the Group's adjustment in management structure as well as the increased performance bonus for certain segments.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB2,626 thousand, representing a year-on-year decrease of approximately RMB35,418 thousand, or approximately 93.1%, which mainly resulted from a year-on-year decrease of approximately RMB13 million in the provision for loss from closure of stores.

Share of Profits of Associates

During the period under review, the Group's share of profits of associates amounted to approximately RMB3,099 thousand, representing a year-on-year decrease of approximately RMB23,670 thousand, or approximately 88.4%, including a year-on-year decrease of approximately RMB8 million in the return on investment of Shanghai Carhua Supermarket Co., Ltd.（上海聯家超市有限公司）("Shanghai Carhua"). After deducting the effects of initial application of Hong Kong Financial Reporting Standards 16 "Leases" ("HKFRS 16 'Lease'"), the Group's return on investment of Shanghai Carhua increased by approximately RMB5 million compared to the same period of last year.

Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA)

During the period under review, the Group's EBITDA amounted to approximately RMB1,192 million, representing a year-on-year increase of approximately RMB740 million, or approximately 163.7%. After deducting the effects of initial application of HKFRS 16 "Leases", the Group's EBITDA amounted to approximately RMB573 million, representing a year-on-year increase of approximately RMB121 million.

Profit before Taxation

During the period under review, the Group's profit before taxation amounted to approximately RMB266 million, representing a year-on-year increase of approximately RMB26 million, or approximately 11.0%.

Income Tax Expense

During the period under review, the Group's income tax expense was approximately RMB123 million, representing a year-on-year increase of approximately RMB11,372 thousand, or approximately 10.2%.

Profit Attributable to Shareholders of the Company

During the period under review, the Group's profit attributable to shareholders of the Company amounted to approximately RMB43,965 thousand, representing a year-on-year increase of approximately RMB4,595 thousand, or approximately 11.7%. After deducting the effects of initial application of HKFRS 16 "Leases", the profit attributable to shareholders of the Company amounted to approximately RMB121 million, representing a year-on-year increase of approximately RMB81 million. During the period under review, the net profit margin was approximately 0.33%, representing a year-on-year increase of 0.03 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share were approximately RMB0.039.

Liquidity and Financial Resources

During the period under review, the net cash outflow of the Group was approximately RMB816,967 thousand. This was mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. As at 30 June 2019, cash and various balance at bank amounted to approximately RMB6,275,133 thousand.

For the six months ended 30 June 2019, the accounts payable turnover period of the Group was 59 days and the inventory turnover period was approximately 37 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2019, there were no arbitrage financial instruments in issue by the Group.

Growth of Each Retail Business

Hypermarkets

During the period under review, for the hypermarkets segment, the Group focused on the determination and iteration of the segment 3.0 model, creating customer experience with diverse market and catering scenarios, and strengthening operations to accelerate brand revamp. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB7,850,785 thousand, accounting for approximately 58.2% of the Group's revenue, representing an increase of approximately 0.2% compared to the same period of last year. In particular, same store sales had a year-on-year decrease of approximately 0.78%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,041,666 thousand, representing a decrease of approximately RMB83,145 thousand compared to the same period of last year. The consolidated income was approximately RMB2,130,308 thousand, representing an increase of approximately RMB109,380 thousand compared to the same period of last year. The distribution and selling expenses and administrative expenses were approximately RMB1,669,678 thousand representing a decrease of approximately RMB76,490 thousand compared to the same period of last year. Depreciation expenses and rental expenses of stores recorded a year-on-year decrease of approximately RMB80,250 thousand and finance costs recorded a year-on-year increase of approximately RMB151,566 thousand as a result of the effects of initial application of HKFRS 16 "Leases". The segment operating profit was approximately RMB306,567 thousand, representing a year-on-year increase of approximately RMB70,720 thousand. Operating profit margin increased by 0.89 percentage point compared to the same period of last year to approximately 3.90%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB377,883 thousand and the operating profit margin was 4.81%.

	As of 30 June	
	2019	2018
Gross Profit Margin (%)	**13.27**	14.35
Consolidated Income Margin (%)	**27.13**	25.78
Operating Profit Margin (%)	**3.90**	3.01

Supermarkets

During the period under review, for the supermarkets segment, the Group proactively developed new stores, strengthened the exploration of new business model, and significantly improved the same store sales of transformed stores. At the same time, the Group enhanced the benefits of members and retained the key members. During the period under review, the supermarket segment of the Group recorded a revenue of approximately RMB4,644,767 thousand, accounting for approximately 34.4% of the Group's revenue, representing a year-on-year increase of approximately RMB388,290 thousand, or approximately 9.1%. In particular, same store sales had a year-on-year increase of approximately 1.20%. During the period under review, the supermarket segment recorded a gross profit of approximately RMB621,596 thousand. The gross profit margin decreased by 0.45 percentage point compared to the same period of last year to 13.38%. The consolidated income was approximately RMB1,026,131 thousand, representing a year-on-year increase of approximately RMB76,836 thousand. The consolidated income margin decreased by 0.21 percentage point compared to the same period of last year to 22.09%. The segment operating profit was approximately RMB35,770 thousand, representing a year-on-year decrease of approximately RMB68,654 thousand. Operating profit margin decreased by 1.68 percentage points to approximately 0.77%. It was mainly due to a year-on-year decrease in depreciation expenses and rental expenses of RMB13,425 thousand and an increase in finance costs of approximately RMB34,212 thousand as a result of initial application of HKFRS 16 "Leases" and an increase in labour cost of approximately RMB61,361 thousand as a result of the increasing number of stores, development of new businesses and other factors. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB56,556 thousand and the operating profit margin was 1.22%.

	As of 30 June	
	2019	2018
Gross Profit Margin (%)	**13.38**	13.83
Consolidated Income Margin (%)	**22.09**	22.30
Operating Profit Margin (%)	**0.77**	2.45

Convenience Stores

During the period under review, for the convenience store segment, the Group continued to accelerate the introduction of fresh food products and imported products through consumer-oriented diversified development, enhanced brand image and created new consumption scenarios for young consumers. During the period under review, the convenience store segment recorded a revenue of approximately RMB943,827 thousand, representing a year-on-year increase of approximately 0.4% and accounting for approximately 7.0% of the Group's revenue. In particular, same store sales decreased by approximately 1.81% compared to the same period of last year. The convenience store segment recorded a gross profit of approximately RMB151,099 thousand. The gross profit margin decreased by 1.60 percentage points compared to the same period of last year to approximately 16.01%. The consolidated income was approximately RMB202,321 thousand. The consolidated income margin decreased by 1.97 percentage points compared to the same period of last year to approximately 21.44%. The distribution and selling expenses and administrative expenses amounted to approximately RMB279,008 thousand altogether, representing a year-on-year decrease of approximately RMB11,166 thousand. During the period under review, the convenience store segment incurred an operating loss of approximately RMB74,652 thousand with a year-on-year increase in losses of approximately RMB4,269 thousand. The operating profit margin decreased by 0.42 percentage point to approximately –7.91%.

	As of 30 June	
	2019	2018
Gross Profit Margin (%)	**16.01**	17.61
Consolidated Income Margin (%)	**21.44**	23.41
Operating Profit Margin (%)	**–7.91**	–7.49

Capital Structure

As at 30 June 2019, the Group's cash equivalents were mainly held in Renminbi. There were no bank borrowings of the Group.

During the period under review, the equity attributable to owners of the Group increased from approximately RMB2,156,997 thousand to approximately RMB2,194,219 thousand, mainly due to the profit in the period of approximately RMB43,965 thousand and the decrease in opening balance by approximately RMB6,743 thousand adjusted for the initial application of HKFRS 16 "Leases".

Details of the Group's Pledged Assets

As at 30 June 2019, the Group did not pledge any assets.

Foreign Exchange Risks

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in exchange rates. The Group neither entered into any agreements nor purchased any financial instruments to hedge its foreign exchange risk. The directors of the Company (the "Directors") believe that the Group is able to meet its foreign exchange demands.

Share Capital

As at 30 June 2019, the issued share capital of the Company was as follows:

Class of Shares	Number of Issued Shares	Percentage
Domestic shares	715,397,400	63.90
Unlisted foreign shares	31,602,600	2.82
H shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities.

Development of Sales Network: Development of Segments and End Model

During the period under review, through the two major strategies of scientific site selection and rapid expansion of sales network, the Group, with its foothold in the Yangtze River Delta, promoted its national layout and steadily advanced the opening and renewal of outlets; multiple business segments jointly met consumers' needs in different shopping scenarios. On one hand, the Group actively developed new outlets in key development areas to consolidate its leading position in the market. In the first half of 2019, the Group opened 124 new stores, including 4 newly opened hypermarkets. Among all new supermarkets and convenience stores, 43 were directly-operated stores and 77 were franchised stores. Among the new stores, 96 stores were located in the Yangtze River Delta, accounting for 77.4% of the new stores. On the other hand, the Group adapted to changes in market environment, prudently reorganized the stores and improved the overall quality of the physical stores. As a result, 94 stores were closed, including 31 directly-operated stores and 63 franchised stores.

During the period under review, 4 new hypermarkets were opened, all of which were located in Zhejiang Province. The number of stores recorded a net increase of 3. The hypermarket segment mainly focused on consolidation and promotion of current business. Based on the upgrading of Internet technology and Internet tools, and adoption of Internet mindset, the Group, centering on customer experience, improved operation quality and economic benefits by adjusting the product portfolio, optimizing the scenario setting, upgrading service management, and rationally allocating resources, while exploring the determination and iteration of the high-end whole food market store, or hypermarket 3.0 model.

During the period under review, 104 new supermarkets were opened, including 38 directly-operated stores and 66 franchised stores. 37 supermarkets were closed, including 6 directly-operated stores and 31 franchised stores. The number of stores recorded a net increase of 67. During the period under review, the directly-operated business under the supermarket segment primarily focused on transformation and upgrading. In face of different types of consumption, focusing on the establishment of models of "community convenience stores"(社區便捷), "community fresh produce stores"(社區生鮮) and "selected stores"(精選超市), targeted precise services were provided through adjustment to the product portfolio and the successful experience was gradually replicated and promoted through the gradual improvement of sample stores; meanwhile, the incubation of the new innovative segment of "selected retailing + diversified catering experience" was proactively promoted. For the franchise business, the Group vigorously reshaped the franchise system, proactively developed close-relationship franchised stores and advanced the determination of the new franchise model to promote the win-win cooperation with franchisees.

During the period under review, 16 new convenience stores were opened, including 5 directly-operated stores and 11 franchised stores. 56 stores were closed and the number of stores recorded a net decrease of 40. Oriented by diversified development, the convenience store segment optimized its product portfolio, enriched its product categories and continuously expanded the sales proportion of fresh produce, imported goods and private-label products, while paying attention to consumers' experience, creating new consumption scenarios for young consumers, enhancing catering models and providing more dynamic services.

As of 30 June 2019, the Group had 3,401 stores in total, representing a net increase of 30 stores compared to the end of 2018. Approximately 82.2% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	145	644	738	1,527
Franchise operation	–	1,330	544	1,874
Total	145	1,974	1,282	3,401

Note: The data mentioned above were as at 30 June 2019.

Product Category Plan and Supply Chain Construction

During the period under review, the Group completed the product category innovation plan, vigorously implemented the strategies concerning category management and structure adjustment of major categories (TBFF), and focused on optimizing fresh produce and imported product categories. It strengthened the consumer-oriented Joint Business Plan (JBP) strategic cooperation, developed national famous premium brands and created the categories most favoured by consumers.

The Group is committed to promoting the sustainable growth of fresh produce category and creating the leading image of the fresh produce category. The Group established a nationwide joint procurement information exchange platform, established "integrated" joint procurement, which was subject to overall coordination and detailed implementation, to promote the national joint procurement project of the fresh produce bases, forming the core cost advantage of fresh produce. In addition to promoting the sorting and grading of fresh produce products, the Group increased the number and proportion of imported products and optimized the category structure of fresh produce goods, to upgrade fresh produce products. Besides the Group built a central factory of cooked food and baking, and optimized the fresh produce refrigerated logistics. More efforts were exerted on the introduction and promotion of dine-in food and instant food categories. The gradual enhancement of the capacity for research and development of fresh processed products gave rise to gradual formation of the special and advantageous categories of fresh produce.

During the period under review, the Group accelerated the creation of the image as a vendor of a full range of imported products with higher cost performance, expanded the channels of imported products, and increased the proportion of direct procured imported products to improve the marketing capacity of imported products and deepen cooperation with multinational brands. Through analyzing the sales ratio, enhancing the sensitivity of product selection and quickly introducing and creating the strongest category, the Group strived to become the best shopping place with the most comprehensive, latest and most delicious products for consumers.

During the period under review, the Group continued to promote the consumer-oriented JBP strategic cooperation and expanded its sales and increased its profit through the weekly promotion activities of manufacturers. Through streamlining data research, consumer insight, brand building, product innovation, marketing model and other fields, the Group deeply tapped the depth and breadth of JBP strategic cooperation and created incremental opportunities for the layout of JBP strategic cooperation content, dedicated to offering a full range of multi-dimensional new shopping experience for consumers.

Private-label Brands

During the period under review, the Group focused on setting the development path and positioning of its private-label brands. Through reviewing existing private-label brands and strengthening the promotion plan for private-label brands, the Group built a visual strategy system for key brands and increased the sales and proportion of private-label brands. With the clarification of brand positioning and planning and establishment of the high-activity brand positioning in the minds of consumers which has a high degree of relevance to consumers, the Group created a GBB (Good, Better, Best) brand level system.

During the period under review, the Group vigorously built the supply chain for the products of its private-label brands. It focused on major products for people's livelihood and increased development efforts for the high-margin, high-growth and high-potential categories. During the period under review, the Group successfully developed more than 80 new products and intensified supplemental categories including snacks, dried food, daily necessities, textile, and gift boxes for festivals and holidays. Through reasonable planning, the Group introduced differentiated quality categories and met market demands through creation of the supply chain and strengthening the direct purchase at source and of quality products.

During the period under review, the Group deepened coordinated development of various segments and integration of regional resources for the development of private-label brands, and prepared the basic data of resources integration. Relying on the commodity management manual prepared for private-label brands and standardization process for management of multiple regions, the Group maintained the continuous development of each region.

During the period under review, the Group's marketing of private-label brands became more diversified and scenario-based layouts were created. The stores also enhanced the entertaining shopping experience for customers by emphasizing brand quality and telling stories of brand origins, etc.. Meanwhile, the Group maintained close offline and online interaction to keep nationwide brand interconnection among different segments through multiple channels.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group continued to promote the improvement of operational standards and services, and focused on improving logistics efficiency and the overall efficiency of the supply chain.

During the period under review, the Group reviewed the existing operational procedures, and, based on the implementation of actual operation of different types of business districts, continuously learned the peers' practical experience to supplement the detailed rules, optimized and improved the operational standards and facilitated the promotion of operational standard models. According to the concepts of current new supermarkets, new types and new services, the Group conducted training on implementation theory and practical operational skills of operational standards to strengthen the professional level and quality of employees in implementation of operational standards and promote the improvement of operation level.

During the period under review, the Group strengthened cross-department collaboration and improved and deepened the implementation system of key projects. The Group adopted unified systems and statements, and flexibly used existing standardized processes to achieve efficient operations. A cross-department joint working group was established to help coordinate the work connection of the newly joined teams and various departments to strengthen internal support. The design and establishment of a KPI (Key Performance Indicator) linkage mechanism centering on the new performance targets strengthened the joint sense of responsibility and participation enthusiasm of related departments.

During the period under review, the Group promoted the implementation of service standards and accelerated the service image enhancement of stores. As customers are the basis for improving performance, the Group adhered to the customer-oriented business philosophy, transformed the intermediary function of traditional retailers into the organizer and service provider of the consumers based on the core characteristics of the new retail, to improve the service configuration of stores and the service standards of stores.

During the period under review, the Group formulated a performance improvement plan based on the characteristics of various commodity categories, and created quality fresh produce, competitive room temperature categories and commodities with area-effectiveness. Through the scenario-based solution of three meals a day and the creation of scenarios, the Group created a business model with all retail elements, i.e. consumers, goods and space, to improve the quality of fresh produce and empower the sales of fresh produce. On the basis of strengthening operational implementation standards, the Group developed reasonable seasonal instruction manuals to highlight core and key single products, and optimized business capabilities to create competitive room temperature categories. By subdividing the customer base and business segments, the Group iteratively promoted the improvement of quality, optimization of products and enrichment of categories, and developed commodities with area-effectiveness.

During the period under review, the Group continued to improve its logistics efficiency and expand service support business. The optimization of the organizational structure improved the efficiency of online and offline collaborative operations and the level of distribution services. The Group improved the automatic replenishment system for central warehouse and enhanced the product satisfaction rate through technical means. Scientific and rational transportation and loading and unloading strategies were developed based on the advanced technical equipment and management concepts, to further reduce operating costs, improve operational efficiency, and ensure the quality of delivered commodities.

During the period under review, the Group focused on developing cross-sector and cross-industry alliance strategies. The Group proactively engaged in interaction and cooperation with external quality resources, established long-term, planned and mutually beneficial partnerships and built a close cooperative relationship with UnionPay, Alipay and WeChat. In addition, the Group proactively expanded cooperation with card issuing banks and other third-party payments to form a multi-payment marketing network, and explored cross-industry cooperation with life and entertainment related service providers.

Brand Revamp

During the period under review, the Group developed a full set of brand strategies covering business description, vision, mission, brand value, brand characteristics and brand slogans. Lianhua brand was redefined centering on the corporate vision of "For our community to admire us more each day" ("讓消費者更喜愛我們"). The Group updated the color of brand logo with the tagline of "Live the good Life" ("用心過好生活") and determined "The 3-goodness" mission ("三好"使命) of "To offer better products, better experiences, and better Living every day" ("好商品，好體驗，構建人情好生活") to build the brand image of Lianhua. At the same time, the Group prepared new standardized storefront signboards based on brand revamp and built uniform refreshed performance and experience of the brand in stores. Through the refreshment and transformation of brand logo, color themes, fonts, graphics, symbols and other details, the basic visual system after the revamp of Lianhua brand was determined.

During the period under review, the Group fully leveraged on its brand refreshment advantages and launched branded integration themed activities to deliver brand temperature to consumers. The New Year event themed "Wishful Year Around You"（心意年在身邊）and the 28th anniversary brand event themed "Light up the good life"（點亮好生活）presented the category story in a more consumer-friendly way, deepening consumers' impression and improving sales performance. Meanwhile, the presentation of key micro-scenarios combined with related category solutions increased the association with Lianhua brand. By strengthening digital communication and cooperation with third parties, the Group quickly enhanced the brand awareness and reputation. Besides, the Group emphasized the consistency of brand positioning to increase consumers' preference and activeness for the brand.

During the period under review, the Group reshaped the Lianhua membership system cooperated with suppliers to create exclusive event days for Lianhua members, to increase members' activities and loyalty for the brand. At the same time, the Group's internal brand awareness activities were carried out to strengthen employees' understanding of the brand and to make employees become loyal members.

Incentive Mechanism, Corporate Culture and Digital Drive

As of 30 June 2019, the Group had a total of 36,482 employees, representing a decrease of 1,479 employees. Total employment expenses amounted to approximately RMB1,403,630 thousand.

During the period under review, the Group further promoted the contractual mechanism reform and improved innovation on incentive mechanism. On the basis of the contract-based management of senior management of the Company, the Group further promoted the implementation of the contractual assessment mechanism for key positions. For the supermarket segment, the store partner system was implemented as a pilot scheme, which was proactively supported by the employees of the Group and greatly promoted the enhancement of store performance.

During the period under review, the Group fully implemented the initiative to show care to entry-level employees and continued to implement the incentive model of sharing incremental income with all staff. It formulated the annual star team and value employee selection plan, to set examples and convey positive energy; the success of the Company's 28th anniversary celebration and cultural festival promoted the implementation of corporate culture. Furthermore, the Group launched a brand training camp and set up a joint KPI incentive mechanism to promote brand refreshment and brand building.

During the period under review, the Group focused on building consumer-oriented corporate culture and conducted core business training and special training on new retail digitalization. It made full use of the internal training resources to strengthen the cultivation of internal trainers and the development of new courses.

During the period under review, the Group exerted great efforts on building a flat organizational structure to enhance the organizational strength of the core departments, and continually improved and optimized the organizational structure, to intensify the functions of the core business units. It attached importance to the configuration design of new organizational structure and improved the response speed of the new organization to promote the exploration of new business model and planning and implementation of digital store projects.

During the period under review, the Group strengthened the establishment of innovative talent and back-up talent pool, and selected young reserve cadres through secondment, rotation, and incubation of innovation projects. Meanwhile, the Group increased talent reserve for core positions of stores and established a front-line talent pool. In line with the development of organizations, the Group implemented the Eyas Growth Program (雛鷹成長計劃) for personnel on core positions and management trainees at the headquarters of the Group.

During the period under review, the Group emphasized digital drive. It completed the demand survey and development of digitalized store system, and endeavoured to promote the pilot implementation and promotion of digitalized stores. The launch and promotion of the ERP (Enterprise Resource Planning) system was vigorously propelled due to the completion of the summarization of process optimization design scheme and assessment of implementation scheme of the ERP system of supply chain. The Group enhanced the visualization function of the stores of all segments, promoted the optimization and improvement of Lianhua big data platform; and completed the comprehensive promotion of the franchise contract platform and function enhancement and development of the new franchise model system.

During the period under review, the Group accelerated the promotion of omni-channel sales, combined and integrated various types of retail channels, and conducted cross-channel sales as well as thematic full-scale rebate activities and synchronized offline promotions to stimulate customers' desire to purchase. All employees were encouraged to promote the way of purchase through scanning QR code, resulting in a new high in terms of daily sales volume and number of orders of delivery-to-home business.

During the period under review, the Group proactively progressed towards the target of cost reduction and efficiency enhancement, and focused on improving corporate management and control capabilities. It strengthened tax planning to reduce tax expenditures and management costs. The labour cost was strictly controlled through scientific personnel allocation. The procurement cost was reduced through collective bidding for asset purchase. During the period under review, the Group put many efforts on safe production, continued to promote the creation of "trustworthy supermarkets"(守信超市), and fully achieved the creation goals. It strengthened the management of commodity access, and implemented the whole process control of product quality. Moreover, it improved the long-term mechanism of safety management, strengthened safety inspection and training, and proactively organized training on safety knowledge and special drills for employees.

Strategy and Planning

In the second half of 2019, in respect of the international environment, the growth rate of the world economy and trade is expected to slow down, and the geopolitical instability and economic operational risks will increase. As to the domestic environment, the solution of the long-standing structural and institutional contradictions in China is a step-by-step process, and China's economic operation is exposed to new downward pressure. However, with the stable employment and rapid income growth of urban and rural residents and the further implementation of policies and measures by the Chinese government in terms of substantial reduction of taxes and expenses, further opening up, improvement and promotion of consumption system and mechanism, acceleration of the renovation of old urban communities, etc., the consumption potential of residents will be continuously released. It is expected that the consumer market will maintain a steady and upward trend in the second half of the year.

Therefore, in the second half of 2019, the Group will uphold the faith of "unity as a group, growth with passion" with a focus on "determination and expansion of the segments and end model, product portfolio planning and supply chain construction, private-label brand, excellent implementation and brand revamp" along with the incentive mechanism, organizational system, capital structure and corporate culture-driven and digital-driven approach with a view to further fostering the mindset of future growth and capturing market and innovation opportunities, thereby consistently optimizing the operation of the Group.

In the second half of 2019, with respect to the determination and expansion of the segments and end model, the Group will open its first high-end whole food market store of hypermarket 3.0 model, while steadily promoting the transformation and upgrading of existing stores. The Group will continue to promote the standardization and modularization of three types of stores, i.e. community selective store, community fresh produce store and convenience traffic store, and proactively incubate innovative models, while accelerating the improvement and determination of the close franchise model. More efforts will be made on commodities, external channels and platforms, and big brand innovation linkage, and the Group will introduce consumers to online stores through the physical stores with strong experience and high visit frequency to achieve substantial growth of online transactions and accelerate promotion of omni-channel sales.

In the second half of 2019, in respect of product category plan and supply chain construction, the Group will step up its efforts in advancing and implementing category strategies and promote the sales growth and consolidated income growth of major categories (TBFF) to create the image of imported product categories of higher cost performance. In-depth cooperation with suppliers will be further strengthened in terms of marketing and major products for people's livelihood to promote the implementation of the strategic cooperation in respect of consumer-oriented JBP strategic cooperation.

As to private-label brand development in the second half of 2019, the Group, based on the emphasis of brand development strategies, will deepen category optimization and SKU optimization templates and build GBB private-label brand structure and visual system of Lianhua brands; it will accelerate the development of new products and creation of new categories and improve their popularity and competitiveness, to promote sales of private-label brands.

In the second half of 2019, the Group will continue to promote excellent implementation, create quality fresh produce, optimize and upgrade room temperature commodities, and comprehensively improve logistics efficiency and service support business expansion capabilities.

In the second half of 2019, the Group will further gain insight into consumer demand and promote brand revamp; it will deepen the loyalty of consumers and employees for the brand; it will integrate and rationally allocate internal resources and optimize the content and quality of member activities in a more effective way, to enhance member experience, thus promoting membership growth and promotion of sales to members; relying on the power of brand and advantages of outlets, the Group will accumulate cross-industry resources to promote sales growth.

In the second half of 2019, in line with business promotion requirements, the Group will promote contract implementation and partner projects and continuously improve incentive mechanism innovation. It will implement annual star team and value employee selection and build employee communication platform, to strengthen the care for front-line entry level employees. The organizational reform will be driven to improve work efficiency and strengthen labour cost control. The Eagle Talent Program (雄鷹成才計劃) (high-potential talent training) and Eyas Growth Program (雛鷹成長計劃) (new college students training) will be offered to accelerate talent training and introduction and strengthen talent team construction.

In the second half of 2019, the Group will continue to promote the launch and promotion of digital store system, enhance the data analysis function of Lianhua big data platform and realize the omni-channel sales and internet-based customer experience and marketing through digital empowerment.

Other Information

Disclosure of Interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2019, except for Mr. Xia Da-wei, an independent non-executive Director, who holds 8,694 ordinary shares of Shanghai Bailian Group Co., Limited ("Shanghai Bailian") (representing approximately 0.0005% of the total issued shares of the Shanghai Bailian), none of the Directors, supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Substantial Shareholders of the Company

So far as the Directors are aware, as at 30 June 2019, the following persons (not being a Director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Bailian Group (Note 1)	domestic shares	513,869,400	45.90%	68.79%	–	Beneficial owner/Interest of corporation controlled
Shanghai Bailian (Note 1)	domestic shares	224,208,000	20.03%	30.01%	–	Beneficial owner
Alibaba Group Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao China Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao (China) Software Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba (China) Technology Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Corornation Global Fund Managers (Ireland) Ltd.	H shares	37,130,454(L)	3.32%	–	9.97%(L)	Investment manager
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H shares	34,647,000(L)	3.09%	–	9.30%(L)	Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 3)	H shares	33,914,000(L)	3.03%	–	9.10%(L)	Interest of corporation controlled
Xu Zi-zuo	H shares	26,574,000(L)	2.37%	–	7.13%(L)	Beneficial owner
Julius Baer International Equity Fund	H shares	12,191,558(L)	1.09%	–	5.89%(L)	Beneficial owner

(L) = Long position
(S) = Short position
(P) = Lending pool

Notes:

1. As at 30 June 2019, Bailian Group Co., Ltd. ("Bailian Group") directly and indirectly held approximately 51.16% of the shares in Shanghai Bailian. As at 30 June 2019, Shanghai Bailian held 224,208,000 shares of the Company. Thus, Bailian Group directly and indirectly holds approximately 513,869,400 shares of the Company, or 45.90% in proportion.

   As at 30 June 2019, (i) Mr. Ye Yong-ming, the Chairman and a non-executive Director, was the chairman of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms. Xu Zi-ying, the Vice Chairman and a non-executive Director, was a director and the president of Bailian Group, the vice chairman of Shanghai Bailian and the chairman of Shanghai No. 1 Pharmacy Stock Holdings Co., Ltd. ("No. 1 Pharmacy"); (iii) Mr. Qian Jian-qiang, a non-executive Director, was a director and the general manager of Shanghai Bailian; (iv) Ms. Zheng Xiao-yun, a non-executive Director, was a director, the chief financial officer and the secretary of the board of Shanghai Bailian; (v) Mr. Yang A-guo, a supervisor of the Company, was the chief financial officer of Bailian Group and the head of the supervisory committee of Shanghai Bailian; and (vi) Ms. Tao Qing, a supervisor of the Company, was the senior director of the auditing and risk management centre of Bailian Group, a supervisor of Shanghai Bailian and the head of supervisory committee of No. 1 Pharmacy.

2. Alibaba Group Holding Limited holds 100% of the shares in Taobao Holding Limited, Taobao Holding Limited holds 100% of the shares in Taobao China Holding Limited, Taobao China Holding Limited holds 100% of the shares in Taobao (China) Software Co., Ltd., and Taobao (China) Software Co., Ltd. holds 78.42% of the shares in Alibaba (China) Technology Co., Ltd. Alibaba (China) Technology Co., Ltd. holds 201,528,000 shares of the Company, representing 18% share capital of the Company. Thus, Alibaba Group Holding Limited, Taobao Holding Limited, Taobao China Holding Limited and Taobao (China) Software Co., Ltd. are all deemed to be invested in the shares held by or deemed to be interested by Alibaba (China) Technology Co., Ltd.

3. China Galaxy International Asset Management (Hong Kong) Co., Limited holds 100% of the shares in China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP). China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) holds 33,914,000 shares of the Company. Thus, China Galaxy International Asset Management (Hong Kong) Co., Limited directly and indirectly holds approximately 34,647,000 shares of the Company, or 3.09% in proportion.

4. As the Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the number of H shares of the Company held as at 30 June 2019 by holders of H shares has been adjusted accordingly, if necessary.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2019.

The Legal Status of Unlisted Foreign Shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (these definitions have been adopted in the Articles of Association of the Company ("Articles of Association")), the rights attached to the Unlisted Foreign Shares, which are subject to certain restrictions on transfer as referred to in the Prospectus and may become H shares of the Company (the "H Shares") upon obtaining the requisite approvals from, among others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange, are not expressly provided under the existing PRC laws or regulations. However, the Company's creation of Unlisted Foreign Shares and the subsistence of the Unlisted Foreign Shares does not contravene any PRC laws or regulations.

At present, there are no express laws and regulations in the PRC governing the rights attached to Unlisted Foreign Shares. Grandall Law Firm (Shanghai) advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall be treated the same as holders of domestic shares ("Domestic Shares") of the Company (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

(a) to receive dividends declared by the Company in foreign currencies; and

(b) in the event of winding up of the Company, to remit their respective shares of the remaining assets (if any) of the Company out of the PRC in accordance with the applicable foreign exchange control laws and regulations of the PRC.

No provision is made for the settlement of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares in the Prerequisite Clauses or the Articles of Association. According to the PRC laws, in case of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares and the parties failed to reach any settlement after negotiation or mediation, either party may choose to resort to an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement. If there is no prior arbitration agreement and the parties are not able to reach an agreement in respect of their dispute, either party may initiate legal proceedings in a competent PRC court.

According to the requirements under Clause 163 of the Prerequisite Clauses and the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are also applicable to disputes between holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Law Firm (Shanghai), the Unlisted Foreign Shares can be converted into new H Shares subject to satisfaction of the following conditions:

(a) the expiry of a period of one year from the date on which the Company was converted from a limited company into a joint stock limited company and listed on the Stock Exchange;

(b) approvals from the original approval authority or authorities in the PRC for the establishment of the Company obtained by holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H shares;

(c) approval from the CSRC obtained by the Company for the conversion of Unlisted Foreign Shares into new H Shares;

(d) approval granted by the Stock Exchange for the listing and trading of the new H Shares converted from the Unlisted Foreign Shares;

(e) approval granted by the shareholders of the Company at a general meeting and the holders of H Shares, Domestic Shares and Unlisted Foreign Shares at their respective class meetings to authorize the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for listing of shares outside the PRC and with the Articles of Association and any agreement among the shareholders.

Upon satisfaction of all the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange, Unlisted Foreign Shares may be converted into new H Shares.

Subsequent Events

From 1 July 2019 to the date of this interim report, there was no non-financial event that may cause material effects on the results of the Company.

Interim Dividend

The board of Directors of the Company (the "Board") does not recommend the distribution of interim dividend for the six months ended 30 June 2019.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2019 of the Group. The Audit Committee considered that the interim accounts of the Group for the six months ended 30 June 2019 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made sufficient disclosures thereof.

Compliance with the Model Code

The Company has adopted the Model Code as code of conduct for securities transactions by all the Directors of the Company. After making specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the period under review.

Compliance with the Corporate Governance Code in Appendix 14 of the Listing Rules

The Board is pleased to confirm that except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviations, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviations are set out as follows:

Provision A.4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association provide that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and is eligible for re-election. Having taken into account the continuity of the implementation of the Company's operation and management policies, the Articles of Association contain no express provision for the mechanism of directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code:

Mr. Lee Kwok Ming, Don, an independent non-executive Director, was unable to attend the ninth meeting of the sixth session of the Board convened on 29 March 2019 by the Company due to his other work duties.

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the tenth meeting of the sixth session of the Board convened on 12 June 2019 by the Company due to her other work duties.

Mr. Qian Jian-qiang, a non-executive Director, was unable to attend the eleventh meeting of the sixth session of the Board convened on 29 August 2019 by the Company due to his other work duties.

After receiving the relevant materials for the Board meetings, they have authorized other Directors to attend the meetings and vote on their behalf. The relevant matters were considered at the Board meeting and all the resolutions were passed smoothly. The Company had sent the related minutes to all Directors of the Board after the Board meetings so any Director who was unable to attend the meetings was able to understand the resolutions passed at the meetings.

For Provision A.6.7 of the Code, Ms. Xu Zi-ying, a non-executive Director, was unable to attend the 2018 annual general meeting (the "AGM") of the Company convened on 12 June 2019 due to her other work duties. The Company has provided the relevant materials relating to the AGM to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the AGM. The Company had sent the related minutes to all Directors of the Board after the AGM so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Change in Information of Directors

The changes in information of Directors up to the date of this report are set out below:

Name of Director	Details of Changes
Mr. Zhang Jun	– Ceased to be an independent non-executive Director of the Company on 29 March 2019
Mr. Zhao Xin-sheng	– Appointed as an independent non-executive Director of the Company since 29 March 2019

Please see the announcement of the Company dated 29 March 2019 for the biographical details of the relevant Directors. Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board
Mr. Ye Yong-ming
Chairman

29 August 2019, Shanghai, the PRC

Deloitte. 德勤

TO THE MEMBERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 58, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	notes	Six months ended 30 June **2019** **(Unaudited)** **RMB'000**	 2018 (Unaudited) RMB'000
Revenue	3	**13,487,505**	13,078,590
Cost of sales		**(11,665,230)**	(11,192,251)
Gross profit		**1,822,275**	1,886,339
Other revenue	3	**1,216,259**	1,118,453
Other income and other gains and losses	5	**415,016**	241,072
Distribution and selling expenses		**(2,588,062)**	(2,604,071)
Administrative expenses		**(415,065)**	(390,140)
Impairment losses under expected credit loss ("ECL") model, net of reversal	15	**954**	(637)
Other expenses		**(2,626)**	(38,044)
Share of profits of associates		**3,099**	26,769
Finance cost		**(185,778)**	–
Profit before taxation	6	**266,072**	239,741
Income tax expense	7	**(122,943)**	(111,571)
Profit for the period		**143,129**	128,170
Total comprehensive income for the period		**143,129**	128,170
Profit for the period attribute to:			
Owners of the Company		**43,965**	39,370
Non-controlling interests		**99,164**	88,800
		143,129	128,170
Total comprehensive income for the period attributable to:			
Owners of the Company		**43,965**	39,370
Non-controlling interests		**99,164**	88,800
		143,129	128,170
Earnings per share – basic and diluted	9	**RMB0.039**	RMB0.035

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	**3,448,322**	3,503,796
Construction in progress	10	**26,989**	31,279
Right-of-use assets	10	**7,712,233**	–
Land use rights	10	**–**	838,878
Intangible assets	10	**216,227**	210,423
Interests in associates		**685,469**	682,370
Financial assets at fair value through profit or loss ("FVTPL")	11	**76,425**	52,901
Term deposits	12	**1,615,000**	375,000
Prepaid rental		**725**	49,202
Deferred tax assets		**5,034**	79,146
Finance lease receivables		**438,922**	–
Other non-current assets	13	**–**	12,834
		14,225,346	5,835,829
Current assets			
Inventories		**2,096,036**	2,509,078
Trade receivables	14	**130,064**	175,002
Deposits, prepayments and other receivables		**798,623**	1,118,289
Amounts due from fellow subsidiaries	16	**7,851**	29,556
Amounts due from associates	17	**135**	42
Finance lease receivables-current		**64,260**	–
Financial assets at FVTPL	11	**1,282,064**	3,241,214
Term deposits	12	**2,816,000**	1,620,000
Cash and cash equivalents		**1,844,133**	2,661,100
		9,039,166	11,354,281
Total assets		**23,264,512**	17,190,110

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Capital and reserves			
Share capital	18	**1,119,600**	1,119,600
Reserves		**1,074,619**	1,037,397
Equity attributable to owners of the Company		**2,194,219**	2,156,997
Non-controlling interests		**354,104**	302,929
Total equity		**2,548,323**	2,459,926
Non-current liabilities			
Deferred tax liabilities		**65,348**	93,210
Lease liabilities		**7,197,256**	–
		7,262,604	93,210
Current liabilities			
Trade payables	19	**3,684,477**	4,129,974
Other payables and accruals	20	**1,375,332**	2,439,121
Lease liabilities-current		**686,725**	–
Contract liabilities		**7,497,423**	7,816,494
Deferred income		**14,391**	17,082
Amounts due to Shanghai Bailian (as defined in note d of condensed consolidated statement of changes in equity)		**–**	28,176
Amounts due to fellow subsidiaries	16	**25,305**	59,384
Amounts due to associates	17	**1,333**	1,156
Amounts due to other related parties	17	**344**	785
Tax payable		**168,255**	144,802
		13,453,585	14,636,974
Total liabilities		**20,716,189**	14,730,184
Total equity and liabilities		**23,264,512**	17,190,110
Net current liabilities		**(4,414,419)**	(3,282,693)
Total assets less current liabilities		**9,810,927**	2,553,136

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	1,119,600	258,353	(231,795)	559,800	673,465	2,379,423	322,165	2,701,588
Total comprehensive income for the period	–	–	–	–	39,370	39,370	88,800	128,170
Dividends to non-controlling shareholders	–	–	–	–	–	–	(29,881)	(29,881)
Acquisition of additional equity interests in a subsidiary (note d)	–	–	(3,702)	–	–	(3,702)	(24,394)	(28,096)
At 30 June 2018 (unaudited)	1,119,600	258,353	(235,497)	559,800	712,835	2,415,091	356,690	2,771,781
At 31 December 2018 (audited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**454,741**	**2,156,997**	**302,929**	**2,459,926**
Adjustments (see note 2)	**–**	**–**	**–**	**–**	**(6,743)**	**(6,743)**	**(19,570)**	**(26,313)**
At 1 January 2019 (restated)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**447,998**	**2,150,254**	**283,359**	**2,433,613**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**43,965**	**43,965**	**99,164**	**143,129**
Dividends to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(28,419)**	**(28,419)**
At 30 June 2019 (unaudited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**491,963**	**2,194,219**	**354,104**	**2,548,323**

notes:

(a) Capital reserve of the Company represents share premium arising from issue of H shares net of share issuance expenses.

(b) Other reserve of the Group mainly represents:

i. the fair value difference of a subsidiary's net assets, arising from a business combination in 2005, and the Group's original equity interest in that subsidiary;

ii. the financial impact of adopting merger accounting to account for the acquisition of subsidiaries during the year ended in 2009 and 2011;

iii. acquisition of additional equity interests in subsidiaries; and

iv. share of the other comprehensive income of the associates.

notes: (Continued)

(c) Pursuant to the relevant regulations of the People's Republic of China (the "PRC") and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 10% of its profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its operations, or to increase its capital. The statutory common reserve fund may be converted into the capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2019 and 2018 as such transfer will be made, upon directors' approval, at the year-end date based on the annual profit.

(d) During the six months ended 30 June 2018, the Group entered into a share transfer agreement with Shanghai Bailian Group Co., Limited ("Shanghai Bailian"), the minority shareholder of Lianhua E-business Co., Ltd. ("Lianhua E-business"), pursuant to which the Group agreed to purchase additional 9.0909% equity interest in Lianhua E-business at a cash consideration of RMB28,096,000. The carrying amount in respect of the 9.0909% equity interest of Lianhua E-business on date of acquisition of additional interest was RMB24,394,000, resulting in RMB3,702,000 debited to other reserve, accordingly.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash used in operating activities	**442,214**	306,319
Investing activities		
Placement of unrestricted term deposits	**(2,456,000)**	(901,000)
Withdrawal of unrestricted term deposits	**200,000**	420,000
Purchase of financial assets at FVTPL	**(1,710,700)**	(3,100,000)
Purchase of property, plant and equipment and construction in progress	**(186,370)**	(213,033)
Purchase of intangible assets	**(4,622)**	(6,088)
Payment for rental deposits	**(8,384)**	–
Net cash outflow on disposal of a subsidiary	**–**	(5)
Proceeds on disposal of financial assets at FVTPL	**3,211,910**	2,190,995
Proceeds on disposal of property, plant and equipment	**149,520**	10,658
Dividend from financial assets at FVTPL	**415**	–
Net cash used in investing activities	**(804,231)**	(1,598,473)
Cash used in a financing activity		
Dividends paid to non-controlling shareholders	**(42,546)**	(29,880)
Payment for acquisition of partial interest of a subsidiary	**(28,176)**	–
Repayments of leases liabilities	**(384,228)**	–
Net cash used in financing activities	**(454,950)**	(29,880)
Net decrease in cash and cash equivalents	**(816,967)**	(1,322,034)
Cash and cash equivalents at 1 January	**2,661,100**	3,577,507
Cash and cash equivalents at 30 June	**1,844,133**	2,255,473

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As of 30 June 2019, the Group has net current liabilities of RMB4,414,419,000 (31 December 2018: RMB3,282,693,000). Taking into account of the Group's ability to withdraw the non-current unrestricted term deposits of RMB1,305,000,000, the historical settlement and addition pattern of the coupon liabilities (included in contract liabilities), the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKFRS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRs 2015-2017 Cycle*

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases for Convenience stores that have the lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets

Except for certain short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment property.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the right-of-assets, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessor (Continued)

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring right-of-use assets at the date of initial application;

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is within the range from 3.60% to 3.84%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	11,237,168
Operation lease commitments with value-added-tax excluded	10,702,065
Lease liabilities discounted at relevant incremental borrowing rates	8,547,731
Less: Recognition exemption – short-term leases	586,682
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	7,961,049
Lease liabilities as at 1 January 2019	7,961,049
Analysed as	
Current	609,880
Non-current	7,351,169
	7,961,049

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		7,961,049
Reclassified from land use rights	(a)	865,136
Reclassified from other non-current assets	(b)	12,834
Reclassified from prepaid lease payment	(c)	285,403
Less: Accrued lease liabilities at 1 January 2019	(d)	(717,776)
		8,406,646
By class:		
Leasehold lands		865,136
Land and buildings		7,541,510
		8,406,646

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to RMB26,258,000 and RMB838,878,000 respectively were reclassified to right-of-use assets.

(b) Upfront the prepayments for the leasing of certain buildings from the PRC government were classified as other non-current assets as at 31 December 2018. Upon application of HKFRS 16, other non-current assets of RMB12,834,000 was reclassified to right-of-use assets.

(c) Prepaid lease payment
The carrying amount of prepaid lease payment of several operating leases at 31 December 2018 was adjusted to right-of-use assets at transition.

(d) Rent free period
These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities was adjusted to right-of-use assets at transition.

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	notes	Impact of adopting HKFRS 16 at 1 January 2019 RMB'000
Net equity		
Reverse of deferred taxation for operating lease expenses	(e)	(73,223)
Classification of finance lease rising from sublease	(f)	46,910
Impact on retained earnings at 1 January 2019		(6,743)
Impact on non-controlling interests at 1 January 2019		(19,570)

(e) The Group reversed deferred tax assets arising from the accrued lease liabilities under HKAS 17 upon the initial application of HKFRS 16 since the exemption of initial recognition of deferred tax applied.

(f) The Group classified finance lease rising from sublease which was classified as operating lease under HKAS 17, resulting in the decrease in right-of-use of assets and amounts due from fellow subsidiaries amounting to RMB449,496,000 and RMB6,776,000 and increase in finance lease receivable with amount of RMB503,182,000 in total(included in finance lease receivable of RMB438,922,000 and finance lease receivable-current of RMB64,260,000 respectively).

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	**Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000**
Non-current Assets			
Prepaid rental	49,202	(48,387)	**815**
Land use right	838,878	(838,878)	**–**
Right-of-use assets	–	7,957,150	**7,957,150**
Deferred tax assets	79,146	(73,223)	**5,923**
Finance lease receivables	–	438,922	**438,922**
Other non-current assets	12,834	(12,834)	**–**
Current Assets			
Deposits, prepayments and other receivables	1,118,289	(253,513)	**864,776**
Amounts due from fellow subsidiaries	29,556	(16,537)	**13,019**
Finance lease receivables – current	–	64,260	**64,260**
Capital and Reserves			
Reserves	1,037,397	(6,743)	**1,030,654**
Non-controlling interests	302,929	(19,570)	**283,359**
Current Liabilities			
Other payables and accruals	2,439,121	(701,353)	**1,737,768**
Amounts due to fellow subsidiaries	59,384	(16,423)	**42,961**
Lease liabilities – current	–	609,880	**609,880**
Non-current liabilities			
Lease liabilities	–	7,351,169	**7,351,169**

note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following tables summarise the impacts of applying HKFRS 16 as a lessor on the Group's condensed consolidated statement of financial position as at 30 June 2019 for each of the line items affected. Line items that were not affected by the changes have not been included. The application of HKFRS 16 as a lessor had no impact on the Group's condensed consolidated statement profit or loss and other comprehensive income and cash flows for the current interim period.

	Note	**As reported** RMB'000	**Adjustments** RMB'000	**Amounts without application of HKFRS 16, as a lessor** RMB'000
Non-current Assets				
Right-of-use assets	(f)	7,712,233	449,496	8,161,729
Finance lease receivables	(f)	438,922	(438,922)	–
Current Assets				
Amounts due from fellow subsidiaries	(f)	7,851	6,776	14,627
Finance lease receivables-current	(f)	64,260	(64,260)	–
Capital and Reserves				
Reserves	(f)	1,074,619	(46,910)	1,027,709

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Significant changes in significant judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in the Group's annual financial statements for the year ended 31 December 2018 and note 2 above, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factor that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant changes in significant judgements

Apart from those disclosed in the 2018 annual report of the Company, the following is the critical judgement that the directors of the Company has made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the condensed consolidated financial statements.

Allocation of the consideration between lease components and non-lease components

For a contract that contains multiple lease components and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies judgement to allocate the consideration between the lease components and non-lease components. The assessment of stand-alone price for the non-lease components significantly affects the amount of lease liabilities and right-of-use assets recognized.

3. REVENUE AND OTHER REVENUE

The Group is principally engaged in the operation of chain stores for hypermarkets, supermarkets and convenience stores. Revenue recognised during the period are as follow:

Disaggregation of revenue from contracts with customers

Type of Revenue

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue		
Sales of merchandises	**13,487,505**	13,078,590
Services		
Income from suppliers (service income)	**854,271**	781,457
Royalty income from franchised stores	**19,410**	20,400
Commission income from coupon redemption in other retailers	**1,783**	1,752
	875,464	803,609
Total	**14,362,969**	13,882,199
Timing of revenue recognition		
At a point in time	**13,530,859**	13,080,342
Over time	**832,110**	801,857
Total	**14,362,969**	13,882,199

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue from contracts with customers	**14,362,969**	13,882,199
Rental income from leasing of shop premises	**340,795**	314,844
Total revenue and other revenue	**14,703,764**	14,197,043

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue (including revenue and other revenue) and results by reportable and operating segments, which the Group's General Manager, being the Group's chief operating decision maker (the "CODM"), reviews when making decisions about allocating resources and assessing performance:

	Segment revenue (note)		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000	**2019 (Unaudited) RMB'000**	2018 (Unaudited) RMB'000
Hypermarkets	**8,699,336**	8,588,598	**306,567**	235,847
Supermarkets	**4,967,950**	4,577,184	**35,770**	104,424
Convenience stores	**986,441**	984,235	**(74,652)**	(70,383)
Other operations	**50,037**	47,026	**35,165**	(2,042)
	14,703,764	14,197,043	**302,850**	267,846

note: Segment revenue includes both revenue and other revenue for both periods presented.

A reconciliation of the total segment results to consolidated profit before taxation is as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Segment results	**302,850**	267,846
Unallocated interest income	**28,802**	41,714
Unallocated income and other gains and losses	**5,461**	(3,734)
Unallocated expenses	**(74,140)**	(92,854)
Share of profits of associates	**3,099**	26,769
Profit before taxation	**266,072**	239,741

All of the segment revenue reported above is from external customers.

All of the Group's revenue and segment results are attributable to customers in the PRC.

Segment results did not include share of profits of associates, allocation of corporate income and other gains and losses and expenses (including certain interest income relating to funds managed centrally). This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Information on segment assets and liabilities is not disclosed as this information is not reported to the CODM as they do not assess performance of reportable segments using information on assets and liabilities.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on bank balances and term deposits	**100,506**	81,194
Government subsidies (note i)	**34,883**	26,577
Gain on change in fair value of financial assets at FVTPL	**65,584**	50,888
Dividends from financial assets at FVTPL	**415**	–
Gain on disposal of property, plant and equipment (note ii)	**134,713**	–
Salvage sales	**17,101**	16,497
Early termination of an operating lease contract by lessor (note iii)	**–**	24,000
Income from unutilised contract liabilities	**26,310**	20,623
Others	**35,504**	21,293
Total	**415,016**	241,072

notes:

(i) The Group received unconditional subsidies from the PRC local government as an encouragement for the operation of certain subsidiaries in certain areas.

(ii) On 31 May 2019, a subsidiary of the Group entered into an agreement with the local government for the dismantlement plan carried out by the local government ("the Agreement"). According to the agreement, the government would pay RMB148,849,000 in total as compensation for dismantling the warehouse of the subsidiary. As at 30 June 2019, the relevant procedures as set out in the Agreement have been completed and the compensation has been received, resulting in a gain of RMB135,433,000 on disposal of property, plant and equipment.

(iii) On 25 January 2018, a subsidiary of the Group entered into an agreement with its lessor on early termination of the lease contract at the request of lessor. According to the agreement, the lessor agreed to pay RMB40,000,000 in total as compensation and the payment schedule is made according to the process of the completion of the termination obligations set out in the early termination contract. The compensation of RMB38,000,000 has been received in 2018 and no further payment has received up to 30 June 2019.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
After charging:		
Amortisation and depreciation		
Amortisation of other non-current assets	**–**	729
Amortisation of intangible assets – software (included in distribution and selling expenses/ administrative expense) (note 10)	**9,449**	7,590
Amortisation of land use rights (note 10)	**–**	13,184
Depreciation of property, plant and equipment (note 10)	**178,482**	190,800
Depreciation of right-of-use assets (note 10)	**552,077**	–
	740,008	212,303
Cost of inventories recognised as an expense	**11,665,230**	11,192,251
Staff costs	**1,395,917**	1,367,916
After crediting:		
Share of profits of associates		
Share of profit before taxation	**7,212**	34,738
Less: Share of taxation	**4,113**	7,969
	3,099	26,769

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**149,916**	119,790
Deferred tax credit	**(26,973)**	(8,219)
	122,943	111,571

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits subject to Hong Kong profits tax in both periods presented.

7. INCOME TAX EXPENSE (Continued)

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China.

As of 30 June 2019, the Group had unused tax losses of RMB3,285,028,000 (31 December 2018: RMB3,371,750,000) for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for both interim period and the year ended 31 December 2018.

9. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company	**43,965**	39,370

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,119,600,000**	1,119,600,000

Diluted earnings per share are the same as basic earnings per share as no potential ordinary shares were outstanding for both periods.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS, RIGHT-OF-USE ASSETS, LAND USE RIGHTS AND INTANGIBLE ASSETS

					Intangible assets		
	Property, plant and equipment RMB'000	Construction in progress RMB'000	Right-of-use assets RMB'000	Land use rights RMB'000 (Note a)	Goodwill RMB'000	Software RMB'000	Total RMB'000
Opening carrying amount as at 1 January 2018 (audited)	3,176,870	313,168	–	891,448	129,743	68,687	198,430
Additions	79,167	70,010	–	–	–	6,088	6,088
Transfers	29,435	(33,370)	–	–	–	3,935	3,935
Disposals	(25,015)	–	–	–	–	–	–
Depreciation/amortisation charge (note 6)	(190,800)	–	–	(13,184)	–	(7,590)	(7,590)
Impairment (note b)	(743)	–	–	–	–	–	–
Closing carrying amount as at 30 June 2018 (unaudited)	3,068,914	349,808	–	878,264	129,743	71,120	200,863
Closing carrying amount as at 31 December 2018 (audited)	3,503,796	31,279	–	865,136	127,953	82,470	210,423
Adjustments (note 2)	–	–	7,957,150	(865,136)	–	–	–
Opening carrying amount as at 1 January 2019	3,503,796	31,279	7,957,150	–	127,953	82,470	210,423
Additions	117,341	26,815	307,160	–	–	4,622	4,622
Transfers	20,474	(31,105)	–	–	–	10,631	10,631
Disposals	(14,807)	–	–	–	–	–	–
Depreciation/amortisation charge (note 6)	(178,482)	–	(552,077)	–	–	(9,449)	(9,449)
Impairment (note b)	–	–	–	–	–	–	–
Closing carrying amount as at 30 June 2019 (unaudited)	3,448,322	26,989	7,712,233	–	127,953	88,274	216,227

notes:

(a) Land use rights were further analysed for reporting purposes as:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Non-current assets	–	838,878
Current assets (included in deposits, prepayments and other receivables)	–	26,258
	–	865,136

(b) The directors of the Company will conduct a review of the Group's leasehold improvements and operating and office equipment on a periodic basis to determine if there are any indications of impairment. During the last interim period, the directors determined that a number of those assets relating to those used in the retail stores which had been selected to be closed, were impaired due to physical damage and obsolescence. No significant indication of impairment was identified during the current interim period.

11. FINANCIAL ASSETS AT FVTPL

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Non-current		
Unlisted equity investments (note a)	**21,872**	21,172
Equity securities listed in Shanghai Stock Exchange	**54,553**	31,729
	76,425	52,901
Current		
Equity securities listed in Shanghai Stock Exchange	**2,318**	1,864
Unlisted financial products (note b)	**1,279,746**	3,239,350
	1,282,064	3,241,214
Total	**1,358,489**	3,294,115

notes:

(a) These represent certain unlisted equity investments in the PRC which are measured with fair value upon application of HKFRS 9.

(b) The investments are managed by licensed financial institutions in the PRC to invest principally in certain financial assets including bonds, trusts, cash funds, bond funds or unlisted equity investments issued and are circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. The investments were measured at fair value at the end of the reporting period, with corresponding gain on change in fair value of RMB42,306,000 (six months ended 30 June 2018: RMB61,911,000), credited to "other income and other gains and losses" in the current interim period.

12. TERM DEPOSITS

Term deposits placed with banks in the PRC are denominated in Renminbi. Deposits having a maturity period over 3 months but within 1 year are presented as current assets whilst deposits having a maturity period over 1 year are presented as non-current assets.

As at 30 June 2019, restricted term deposits amounting to RMB1,410,000,000 (31 December 2018: RMB1,730,000,000) are placed by the Group as a security for coupons issued to customers and are not available for other use by the Group. Structured deposits of RMB700,000,000 (31 December 2018: RMB200,000,000) are measured at fair value through profit and loss.

The rest of term deposits are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The effective interest rates on those term deposits range from 1.55% to 4.99% (31 December 2018: from 1.75% to 4.99%) per annum. The carrying amounts of the term deposits approximate their fair value.

13. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group represent prepayment for the leasing of certain buildings from the PRC government and are amortised over the shorter of the contractual periods and the estimated useful lives of the buildings. Other non-current assets have been reclassified as right-of-use assets at 1 January 2019. (note 2)

14. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for credit losses at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2018: 30 to 60 days), presented based on the invoice date is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 30 days	**127,577**	171,377
31 – 60 days	**1,521**	1,353
61 – 90 days	**185**	1,915
91 days – one year	**781**	357
	130,064	175,002

note: The aging is determined from the date on which the control of the goods or services is transferred to the customers till the end of the reporting period.

15. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Impairment loss (reversed) recognised in respect of		
Trade receivables	**(1,053)**	211
Deposits, prepayments and other receivables	**99**	426
	(954)	637

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

16. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

Amounts due from (to) fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2018: 30 to 60 days). As at 30 June 2019, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2018: 60 days).

17. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid by the Group and purchases of merchandise from associates respectively. Balances are all aged within 90 days (31 December 2018: 90 days) and the credit terms of the trade balances range from 30 to 60 days (31 December 2018: 30 to 60 days). Such balances with associates are unsecured and interest free.

18. SHARE CAPITAL

	Number of share RMB1.00 each	**Share capital** RMB'000
Registered:		
As at 1 January 2018, 31 December 2018 and 30 June 2019	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2018, 31 December 2018 and 30 June 2019	1,119,600,000	1,119,600

19. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2018: 30 to 60 days), is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 30 days	**1,799,791**	2,178,686
31 – 60 days	**583,926**	679,871
61 – 90 days	**259,926**	357,182
91 days – one year	**1,040,834**	914,235
	3,684,477	4,129,974

note: The aging is determined from the date on which the control of the goods or services is transferred to the Group till the end of the reporting period.

20. OTHER PAYABLES AND ACCRUALS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	214,388	358,701
Value added tax and other payable	47,927	73,436
Rental payable	–	810,480
Deposits from lessees, franchisees and other third parties	286,094	210,033
Dividend payable to non-controlling interests	–	14,127
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	20,994	27,391
Prepayments received from franchisees and other third parties	472,468	566,387
Payables for acquisition of property, plant and equipment and low value consumables	168,367	213,587
Store closure provision	47,388	53,757
Accruals	97,943	90,291
Other miscellaneous payables	19,763	20,931
	1,375,332	2,439,121

21. CAPITAL COMMITMENTS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings:	116,680	178,932

22. RELATED PARTY TRANSACTIONS

Save as elsewhere disclosed in the condensed consolidated financial statements, the Group also entered into the following significant related party transactions during the current interim period:

(1) Related party transactions

	notes	Six months ended 30 June **2019** **(Unaudited)** **RMB'000**	 2018 (Unaudited) RMB'000
Sales to fellow subsidiaries			
Sales to fellow subsidiaries	(a)	**203,637**	110,040
Purchases from associates Sanming Taige Information Technology Co., Ltd.（三明泰格資訊技術有限公司）	(a)	**2,441**	2,021
Purchases from fellow subsidiaries	(a)	**31,129**	36,995
Purchases from other related parties	(b)	**1,216**	–
Rental income from fellow subsidiaries	(c)	**12,823**	9,004
Commission income earned from fellow subsidiaries	(d)	**234**	349
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**3,081**	3,238
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**4,823**	4,931
Payments of financial cost arising from lease liabilities to fellow subsidiaries	(f)	**5,775**	N/A
Property management fee charged by fellow subsidiaries	(f)	**16,056**	N/A
Rental expenses and property management fee charged by fellow subsidiaries	(f)	**490**	28,875
Interest income earned from a fellow subsidiary	(g)	**17,314**	12,382
Platform usage fee charged by fellow subsidiaries	(h)	**8,751**	5,250
Logistics resources leasing fee charged by fellow subsidiaries	(i)	**1,121**	–
Logistics and delivery fee charged by the other related parties	(j)	**858**	–
Payments of lease liabilities charged by fellow subsidiaries	(f)	**19,802**	N/A
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(k)	**9,554**	5,503
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(k)	**3,959**	3,179

22. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

notes:

(a) This represents sales to and purchase from Bailian Group and purchase from associates in respect of various kinds of merchandise, including but not limited to food products, daily products and electrical appliances, which were determined in accordance with the terms of underlying agreement at the market price.

(b) This represents purchase from Zhejiang Tmall Technology Co., Ltd. ("Tmall Technology") and its subsidiaries in respect of various kinds of goods, including but not limited to foods, fresh produce and industrial products. Tmall Technology is a fellow subsidiary of Alibaba (China)Technology Co., Ltd. ("Alibaba China"), which is a substantial shareholder and therefore is a connected person of the Group.

(c) Certain areas of the Group's hypermarkets are leased to fellow subsidiaries which were charged in accordance with the terms of the underlying agreements at the market price.

(d) The commission income was earned from fellow subsidiaries controlled by Bailian Group in relation to the redemption of the coupons issued by the Group and a fellow subsidiaries controlled by Bailian Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1% (2018: 0.5% to 1%) of the sales made through the coupons in the retail outlets of these companies.

(e) According to the business agreement on the settlement of coupon liabilities entered into between the Group and a fellow subsidiary controlled by Bailian Group, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2018: 0.5%) as agreed between the two parties, based on the gross transaction amount on a monthly basis. The gross transaction amount owed by each other and the related commission income/charge are settled on a net basis each month.

(f) These represent rental expenses and property management fee of certain hypermarkets charged by the fellow subsidiaries. Under HKFRS 16, the rental expenses as presented in 2018 have been recognised as lease liabilities paid to fellow subsidiaries and related financial cost during this current period except for those contracts which are applicable to the exemption of short lease as more fully explained in note 2.1. The payments to settle lease liabilities and finance cost as well as the property management fee as presented separately upon the application of HKFRS 16 during the current interim period are comparable to the corresponding item of rental expenses and property management fee, which were charged in accordance with the terms of the underlying agreements at the market price.

(g) According to the financial services agreement entered into between the Group and a fellow subsidiary controlled by Bailian Group, the fellow subsidiary will provide deposits service to the Company at a deposit rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.

22. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

notes: (Continued)

(h) This represents the platform usage fee charged by Bailian which is not more than 4% of the total transaction amount of goods sold through Bailian and/or its subsidiaries on behalf of the Group through their e-commerce platforms according to the terms of the underlying agreements.

(i) These represent logistics resources service fees of the Group charged by Bailian Group and fellow subsidiaries controlled by Bailian Group. The fee was charged in accordance with the terms of the contracts at the market price.

(j) The distribution service fee of the Group was paid to the fellow subsidiaries of Alibaba China. The fee was charged in accordance with the terms of the contracts at market price.

(k) These represent the transaction amounts transferred between Bailian Finance and the Group in respect of the membership bonus points earned/redeemed by the customers of Lianhua Group. Under the membership points agency and settlement service agreement between Bailian Finance and the Group, the Group will transfer the transaction amounts earned by the customers on consumption in Lianhua Group to Bailian Finance. Alternatively, Bailian Finance will transfer the transaction amounts on redemption of the membership bonus points by the customers to the Group.

(2) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group on 28 February 2013. Pursuant to the agreements signed thereafter, the fellow subsidiary agreed to provide the Group with the deposit services at a deposit rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans. The summary of cash and cash equivalents and unrestricted term deposits placed to the fellow subsidiary is set out below:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Cash and cash equivalents in a fellow subsidiary	**511,133**	753,664
Unrestricted term deposits in a fellow subsidiary	**320,000**	20,000

22. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party balances (Continued)

The summary of lease liabilities and lease receivables to/from related party is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Finance lease receivables - current	**31,228**	N/A
Finance lease receivables	**198,777**	N/A
Lease liabilities-current	**39,186**	N/A
Lease liabilities	**223,535**	N/A

(3) Transactions/balances with other government related entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identities of the counterparties from the sales of merchandise as to whether they are Government Related Entities.

During both periods, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits and borrowing are placed with banks which are also Government Related Entities.

(4) Key management compensation

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Salaries and other short-term employee benefits	**5,690**	4,605
Post-employment benefits	**178**	229
Other long-term benefits	**201**	192
	6,069	5,026

The remuneration of key management is determined having regard to the performance of individuals and market trends.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/06/2019 RMB'000	31/12/2018 RMB'000			
1) Structured deposits measured as FVTPL and investments in low risk bank financial products classified respectively as term deposits and financial assets at FVTPL in the condensed consolidated statement of financial position	**Assets – 1,979,746**	Assets – 3,439,350	Level 3	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group.	Actual yield of the underlying investment portfolio and the discount rate.
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at FVPTL in the condensed consolidated statement of financial position	**Assets – 56,871**	Assets – 33,593	Level 1	Quoted bid prices in an active market	N/A
3) Unquoted equity investments classified as financial assets at FVTPL	**Assets – 21,872**	Assets – 21,172	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparties	Actual yield of the underlying investment portfolio and the discount rate

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements and valuation process

The Chief Financial Officer ("CFO") of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available, and if appropriate, the Group will engage third party qualified valuers to perform the valuation. The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the findings, if any, to the board of directors of the Company at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

24. AUTHORISATION FOR THE ISSUE OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated financial statements were authorised for issue by the Company's board of directors on 29 August 2019.